

February 4, 2004

**OIL AND GAS DOCKET NO. 10-0234762**

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**THE APPLICATION OF QUESTA ENERGY CORPORATION TO RECALCULATE THE ALLOWABLE FOR THE MONTHS OF FEBRUARY, MARCH AND APRIL FOR ITS PAN ROYALTY LEASE WELL NO. 1109, PANHANDLE, WEST FIELD, MOORE COUNTY, TEXAS**

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**HEARD BY:** Thomas H. Richter, P.E., Technical Examiner  
Mark Helmueller, Hearings Examiner

**APPLICANT:**

Dale E. Miller

**REPRESENTING:**

Questa Energy Corporation

**PROTESTANT:**

Jamie Nielson, Attorney  
Steve Towns

ConocoPhillips Company

**PROCEDURAL HISTORY**

Date of Application:	June 1, 2003
Date of Notice:	November 18, 2003
Date of Hearing:	December 3, 2003
Date of Transcript:	No Transcript
Record Closed:	December 22, 2003
PFD Circulated:	February 4, 2004

**EXAMINERS' REPORT AND PROPOSAL FOR DECISION**  
**STATEMENT OF THE CASE**

This is the application of Questa Energy Corporation (herein after referred to as "Questa") to request the Commission to recalculate the assigned allowable for its Pan Royalty Lease (193436) Well No. 1109 for the months of February, March and April 2003. Questa believes that the Commission failed to properly utilize a subsequent G-10 Well Test that would have resulted in a higher allowable for the subject well during that time. ConocoPhillips believes the Commission acted appropriately in not using the G-10 Well Test as ConocoPhillips believes the Commission is prohibited from doing so pursuant to the special field rules for the Panhandle, West Field.

## DISCUSSION OF THE EVIDENCE

### APPLICANT'S EVIDENCE

The Panhandle, West Field was discovered in 1933 at approximately 4,200' subsurface depth. It is a very large gas field with a multitude of operators and wells. The prescribed gas well density is 640 acres. The allocation formula is based on 67% acreage times SIWH (shut-in wellhead pressure) and 33% TMP (Twelve Month Peak).<sup>1</sup> There are several special field rules that specifically address gas well testing, the use of various Commission Gas Well Forms (G-1, G-10), Market Demand Forms (MD-1) and Gas Well Capability (GC-1).

The filing of various Commission forms do have consequences if not filed timely. The Questa Energy, Pan Royalty Lease Well No. 1109 is a directionally drilled well completed on a 6.45 acre railroad right-a-way in Section 109.<sup>2</sup> The remainder of Section 109 is assigned to the ConocoPhillips, Mixon Lease Well No. 1. The following events occurred:

12/16/02	The subject well was completed
12/23/02	Initial G-10 well test run on the well (tested at 98 MCFD)
01/13/03	G-10 Test and G-1 Completion Forms filed in the Commission's District Office
02/10/03	Second G-10 test was run on the well (tested at 465 MCFD after fracture stimulation)
02/18/03	G-10 Test Form filed with Commission's Austin Office

The Commission requires that the Completion Form G-1 be filed within 30 days of the completion date, i.e. date the well was perforated. Initial G-10 tests may be back dated 15 days, not prior to the completion date as indicated on the G-1. Subsequent G-10 retests may be back dated 15 days from the date received by the Commission but not prior to the actual test date. For the subject well, the initial allowable was made effective December 30, 2002. For the G-10 Retest submitted the assigned allowable, according to Commission Rules, should have been effective the date of the retest February 10, 2003 (the actual test date).

Commencing with the assigned allowable on December, 30 2002, the Commission assigned the 98 MCFD, as shown on the initial G-10 test, as the "capability" for the well and continued to assign the 98 MCFD as the capability through April 2003. Commencing in May 2003, the capability of the well was increased to 475 MCFD pursuant to Special Field Rule No. 7(a)(5). From June forward the Commission

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<sup>1</sup> The TMP means for each well in the Field, the month with the highest average daily gas production for such well during any of the most recent twelve months of production reported to the Commission (from the Final Order in O&G 10-0219190 effective November 16, 1999, Findings of Fact No. 5.a.).

<sup>2</sup> The right-a-way lease took its size and shape on March 11, 1930 some three years before the discovery date of the field.

assigned a TMP of 502 MCFD. Commencing in June 2003, Questa voluntarily started under-producing the well to make up the overage. As of November 2003, the overage had been reduced from a high of 32,642 MCF to 1210 MCF.

Questa asserts the Commission should have used its timely filed G-10 retest of 465 MCFD after fracture stimulation in February 2003 for capability determination instead of continuing to use the 98 MCFD that was also timely filed after completion of the well. Questa requests that only the February through April 2003 allowables be recalculated using 465 MCFD instead of the 98 MCFD. Gas Rule 7 of the special field rules address the issue at hand:

7(a)(3)

Twelve Month Peak (TMP) means for each well in the Field, the highest daily gas production for well during any of the most recent twelve months of production reported to the Commission. The TMP for each well is determined by dividing the reported monthly production for the well by the number of days in the respective month for each of the most recently reported twelve months of production. The calendar month from which the TMP is determined may vary from well to well. **A well which is first produced from the field after the effective date of this rule, or a well which has not produced from the field during the most recent twelve months of production, shall file a G-10 test and its TMP shall be equal to its deliverability as determined by the deliverability test on file with the Commission for the first three Allowable Months after the month in which the well commenced or recommenced production.** (emphasis added)

7(a)(5)

Well Capability means a well's highest daily production during any of the most recently reported production months and is determined by dividing the reported monthly production for the well by the number of days in the respective month for each of the most recently reported six months of production. The Well Capability for the "n" allowable (Rule 31(k)1 and Rule 31(k)2 wells shall be equal to the most recently reported months production divided by the number of days in that month. **Potential and deliverability tests of gas wells (Statewide Rule 28, Railroad Commission Form G-10) shall not be utilized for calculating Well Capability, except a well which is first produced in the field after the effective date of this rule, or a well which has not produced from the field during the most recent twelve months of reported production, shall file a G-10 test and shall have a well capability equal to its deliverability as determined by the deliverability test on file (G-10) with the Commission for the first three Allowable Months after the month in which the well commenced or recommenced production.** (emphasis added) A well which has a TMP, capability, and six consecutive months of production of 100 mcf per day or less will be assigned an administrative special allowable pursuant to subsection (h) of Statewide Rule 31.

Questa asserts that the Special Field Rule 7 does not prohibit the filing of subsequent G-10 tests during the time that the TMP (using twelve months) or the Well Capability (using six months) has not received sufficient actual reported production for a determination. A G-10 retest is not the same as the capability reported on a Form GC-1.<sup>3</sup> Special Field Rule 7(c)(3) specifically addresses this:

7(c)(3)

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<sup>3</sup> The GC-1 is the Commission's Substitute Capability Determination Rule 31(e)(2). The MD-1 is the Commission's Optional Operator Forecast Rule 31(d)(D).

Railroad Commission Forms MD-1 and GC-1 shall not be utilized in determining either reservoir allowable or monthly well allowable.

Questa proposes that only the allowable for the three months be recalculated for the subject well. Though per well allowables are derived from the monthly reservoir allowable determination, the impact from the re-calculation on the field as a whole is minuscule and would not effect the allowables assigned to other wells in the field during the February through April 2003 time period. Though the overproduction has been essentially made-up, Questa requests that a total of 5579 MCF of underproduction be assigned to the subject well that may be produced in the future subject to the Commission's balancing periods.

MONTH	ALLOWABLE WITH RE-TEST G-10 MCF [@465]	ALLOWABLE WITH ORIGINAL G- 10 MCF [@98]	RECALCULATED ALLOWABLE RELIEF MCF
Feb - 03	7198	5513	1685
Mar - 03	8548	6838	1710
Apr - 03	6017	3833	2184
		<b>Total</b>	<b>5579</b>

Questa points out the Commission Statewide Rule 28(d) states in part "... If the deliverability of a well increases, a retest must be conducted in the manner specified in this section and must be reported on Form G-10 before the deliverability of record will be increased." The special field rules for the subject field do not prohibit G-10 retests.

Questa believes that ConocoPhillip's assertion that the reason for the subject wells allowable problem is the lease size (only 6.45 acres) in a field which requires 640 acre density is the pot calling the kettle black. This is a legal tract that took its present size and shape before the field was discovered. Indeed, it appears that Phillips has been claiming 640 acres for its Mixon well since that well's completion. The Mixon well is the other well in this section which includes Questa's 6.45 acres right-of-way tract. For proration purposes, Phillips has been claiming this 6.45 acres it did not have a lease on since 1985. The original W-1 for the Mixon well shows 633.28 acres.<sup>4</sup>

### PROTESTANT'S EVIDENCE

ConocoPhillips asserts that Special Field Rule No. 7 does not allow for substitute G-10's for capability purposes. ConocoPhillips asserts that Questa did not timely file some of its Commission forms.

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<sup>4</sup> Subsequent to the hearing ConocoPhillips filed a substitute P-15 showing 633.28 acres.

Further, the subject allowable issue would not exist if Questa had a larger unit, i.e. a 6.45 acre tract in a field that has prescribed proration units density of 640 acres.

ConocoPhillips argues that the Commission's Proration Department could not use the Retest G-10 as a capability determination because it is not authorized by the special field rules. The Commission's proration system performed as it should have and the assigned allowables for the subject well are as they should be. In retrospect, Questa should have fracture stimulated its well before it filed its initial G-10 for the subject well. Because the special field rules prohibit the filing of subsequent G-10 retests, Questa is just stuck with the initial 98 MCFD G-10 it filed.

Conoco Phillips argues that the Special Field Rule 7(c)(1) specifically prohibits the filing of substitute capability as prescribed by Statewide Rule 31(e)(2) which states "... *An operator may submit a substitute capability determination for any well in a prorated field that represents the maximum monthly production capability of the well under normal operating conditions for a specific six month period.*" However, Special Field Rule 7(c)(1) states "Statewide Rule 31(d) and 31(e) are not applicable to the field." ConocoPhillips asserts it was the filing of substitute capability retests in the subject field which caused the 1999 hearing and the subsequent rules adopted by the Commission.

#### **EXAMINERS' OPINION**

The examiners' recommend that Questa's application be approved. The Special Field Rules for the Panhandle, West Gas Field do not prohibit the filing of G-10's (initial or re-test purposes). Finding of Fact No. 5 contained in the Final Order 10-0219190 addresses the TMP and G-10 testing. Specifically Finding of Fact 5(g) states "... Use of TMP instead of G-10's will eliminate for **most** (emphasis added) operators in the field the requirement of G-10 well tests...". The finding uses the term *most operators* and not *all operators*.

Subsequent G-10's may be filed as evidenced by Finding Of Fact 7: "Although operators will no longer be required to conduct G-10 tests, pressure is a factor in the field allocation formula and operators should have the option of conducting a pressure test of their wells and reporting the pressure on Form G-10." Two matters are evident: 1) operators will no longer be required to conduct G-10 tests, but are not prohibited from performing G-10 tests; and 2) because pressure is part of the allocation formula, operators have the option to conduct pressure tests and report the pressure on Form G-10. Accordingly as the pressure changes, an operator can retest because it is necessary in the allowable calculation. Likewise, the deliverability of a well is part of the allocation formula and necessary for the allowable calculation. Therefore, a retest can be performed and this most up-to-date information should be used to calculate the allowables.

Finally, Finding of Fact No. 8(e), in the Final Order 10-0219190, states "... For new wells or wells which have not produced from the field during the most recent twelve months of production, the operators must submit a G-10 test to be used as the well's capability and the TMP for the first three allowable months

after the month in which the well commenced or recommenced production.” Special Field Rule 7 in both §(a)(3) and §(a)(5) track this same language.

If subsequent G-10 testing is not allowed, operators will be penalized for enhancing production. An example is a well that has been producing for 8 or 9 months. An operator decides to fracture stimulate the well and the deliverability of the well is enhanced several fold. According to ConocoPhillip’s argument, the operator of the well can not file a retest G-10 to show the increased deliverability/capability of the well. The operator would have to over produce the well for several months until that higher production is reported to the Commission and the TMP picks it up. The operator would then be in an overproduced situation because the allowable calculated from the TMP will commence in subsequent months and will be penalized for the overproduction. For the Commission proration system to work effectively and efficiently, the most accurate and timely operator/well information is required. Questa, nor any operator, should be penalized for the timing of a well stimulation program.

The 1999 hearing (O&G Docket No. 10-0219190) resulted as a necessity because of operator misuse and/or abuse of the Commission’s General Statewide Rules for gas related rules being applied to the subject field for the determination of the assignment of gas well allowables. Finding of Fact 8(f) states: “The proposed system uses actual production to determine well capability thereby eliminating the need for GC-1’s...”. As previously stated, the GC-1 is a substitute capability form. However, the filing of this form results in a well capability that overrides the proration system for a period of 6 months regardless whether or not a well can continue to produce the indicated deliverability rate. ConocoPhillips is attempting to draw a parallel between a G-10 re-test and the GC-1 and come to the same conclusion. The two are completely different.

Finally, the allocation formula for the subject field does take into account acreage as a factor and the calculated allowables assigned to short acre tracts is adjusted accordingly.

### **FINDINGS OF FACT**

1. Notice of this hearing was provided to all offset operators in the subject field at least ten (10) days prior to the subject hearing.
2. The Panhandle, West Field was discovered in 1933 at approximately 4,200’ subsurface depth.
  - a. The prescribed gas well density is 640 acres.
  - b. The allocation formula is based on 67% acreage times SIWH (shut-in wellhead pressure) and 33% TMP (Twelve Month Peak).
3. The Questa Energy, Pan Royalty Lease Well No. 1109 is a directionally drilled well completed on a 6.45 acre railroad right-a-way tract in Section 109 Survey in Moore County. The remainder of Section 109 is assigned to the ConocoPhillips, Mixon Lease Well No. 1.

4. The Questa Energy, Pan Royalty Lease Well No. 1109 was completed on December 16, 2002.
  - a. The initial G-10 well test run on the well December 23, 2002 (tested at 98 MCFD).
  - b. The G-10 Test and G-1 Completion Form was filed in the Commission's District Office on January 13, 2003.
  - c. A G-10 re-test was run on the well February 10, 2003 (tested at 465 MCFD after fracture stimulation).
  - d. The G-10 re-test Form was filed with Commission's Austin Office on February 18, 2003.
  - e. The Commission assigned initial allowable of 98 MCFD was made effective December 30, 2002 and continued to assign the 98 MCFD as the capability through April 2003.
5. The Commission failed to use the Questa Energy timely filed G-10 retest of 465 MCFD after fracture stimulation in February 2003 for capability determination.
  - a. Commencing in June 2003, Questa Energy voluntarily started under-producing the subject well to make up overproduction. As of November 2003, the overage had been reduced from a high of 32,642 MCF to 1210 MCF.
6. Recalculation of the allowable for the Questa Energy, Pan Royalty Lease for the months of February, March and April 2003 results in an additional 5579 MCF which should have been assigned to the subject well.
7. Special Field Rule No. 7 of the Panhandle, West Field rules Final Order O&G 10-0219190, effective November 16, 1999) does not prohibit the filing of subsequent G-10 tests during the time that the TMP program(using twelve months) or the Well Capability program (using six months) has not received sufficient actual reported production for an allowable alteration/determination.
8. The allocation formula for the subject field uses acreage as a factor in determining gas well allowables.

#### **CONCLUSIONS OF LAW**

1. Proper notice was timely given to all parties entitled to notice pursuant to applicable statutes and rules.

2. All things have occurred and have been accomplished to give the Commission jurisdiction in this case.
3. Recalculation of the allowable for the Questa Energy, Pan Royalty Lease in the Panhandle, West Field for the period of February, March and April 2003 will not cause waste and will protect correlative rights of the mineral interest owners of the Pan Royalty Lease.

**EXAMINERS' RECOMMENDATION**

Based on the above findings and conclusions, the examiners recommend that the application of Questa Energy Corporation to recalculate the assigned allowable for its Pan Royalty Lease (193436) Well No. 1109 for the months of February, March and April 2003 and assign 5579 MCF to the lease subject to Commission balancing rules from the date of assignment be approved as set out in the attached Final Order.

Respectfully submitted,

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Technical Hearings Examiner  
Office of General Counsel

Mark Helmueller  
Hearings Examiner  
Office of General Counsel